

Bandhan Bank Q3FY21

Financial Results & Highlights

Brief Company Introduction

Bandhan started in 2001 as a not-for-profit enterprise that stood for financial inclusion and women empowerment through sustainable livelihood creation. It turned into an NBFC a few years later but the core objective remained financial inclusion. When Bandhan Bank started operations on August 23, 2015, it was the first instance of a microfinance entity transforming into a universal bank in India. On the day of launch itself, Bandhan Bank started with 2,523 banking outlets. It offers world-class banking products and services to urban, semi urban and rural customers alike. In the last few years of operations, Bandhan Bank has spread its presence to 34 of the 36 states and union territories in India with 4,559 banking outlets serving 2.01 crore customers, as on March 31, 2020.

Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	3861	3075	25.56%	3579	7.88%	10845	9088	19.33%
PBT	845	969	-13%	1233	-31.47%	2813	3360	-16.28%
PAT	633	731	-13%	920	-31.20%	2102	2506	-16.12%

Detailed Results:

1. The revenues for Q3 grew 25.6% YoY. PAT fell 13% YoY mainly due to higher provisions of Rs 1068 Cr vs Rs 295 Cr last year.
2. PPop grew 51.4% YoY in Q3.
3. The deposit portfolio grew 29.6% YoY and 7.7% QoQ.
4. Loan portfolio (on book + off book + TLTRO) grew 22.6% YoY.
5. CASA grew 62% YoY.
6. CASA ratio at 42.9% against 38.2% in Q2.
7. Added 17 lakh customers during the quarter with a total customer base at 2.25 crore as of Dec 31, 2020.
8. Capital Adequacy Ratio (CRAR) at 26.2%; Tier I at 21.4%.
9. During the quarter the Bank has taken accelerated additional provision on standard advances amounting to Rs 1000 Cr. With this provision and additional Standard Assets provision that Bank is carrying in Micro banking portfolio total additional provision in books stands at Rs 3119 Cr.
10. Net Interest Income (NII) for the quarter grew by 34.5% YoY to Rs 2,071.7 Cr as against Rs 1,540 Cr in the corresponding quarter of the previous year.
11. Non-interest income grew by 54.7% YoY to Rs 553.3 Cr for the quarter against Rs 358 Cr in the corresponding quarter of the previous year.
12. Operating Profit for the quarter increased by 51.4% YoY to Rs 1,914 Cr against Rs 1,264 Cr in the corresponding quarter of the previous year.
13. Net Interest Margin (annualized) for the quarter stood at 8.3% (merged) against 7.9% on Dec 31, 2019.

14. Total Advances (on book + off book + TLTRO) grew by 22.6% YoY to Rs 80,255 Cr at the end of Q3FY21 against Rs 65,456 Cr in the previous year, and 4.8% QoQ against Rs 76,614 crores in the previous quarter.
15. Gross NPAs as of Dec 31, 2020, are at Rs 859 Cr (1.1%) against Rs 1182 Cr (1.9%) last year.
16. Net NPAs as on Dec 31, 2020 is at Rs 201 Cr (0.3%) against Rs 491 Cr (0.8%) last year.
17. The cost to income ratio was at 27.1% in Q3 vs 33.4% last year.
18. The retail deposit to total deposits was 81%.
19. EEB collection efficiency had reached 92% in value and 94% of customers.
20. The cost of funds was at 6% in Q3.
21. 496 new locations opened in Q3.

Investor Conference Call Details:

1. RoA & RoE for Q3 were at 2.4% and 14.6% respectively.
2. Group loans or micro credit loans accounted for 59% of loans.
3. Total collection efficiency in micro credit has come up to 98%. Around 7.1% of customers have made partial repayment.
4. Collection efficiency dipped in Jan due to the announcement of micro credit loan waive in Assam.
5. The 0 DPD on the entire micro lending book is 76%.
6. Although the management had guided earlier about credit costs being near 3.5% in FY21, it is confident that despite the situation in Assam, credit costs should exceed 100 bps more than the guided number but it will not exceed 5%.
7. Only 6% of disbursements were top up loans in Q3 vs 25% of all disbursements in Q2.
8. The bank reduced FD rates as the cost of FD was getting higher than the cost of SA.
9. 30 to 60 DPD was at 10% and 60 to 90 DPD was at 5% for Bandhan.
10. The bank first allocates resuming EMIs to cover the interest and then principal payments. The total unrecovered interest is now sitting as Rs 349 Cr in receivables.
11. The management has stated that the elections should not have any impact on collection efficiency and credit growth in West Bengal.
12. The company is indeed getting some partial payments from the proforma NPL of 7%. Removing the partial payments, the proforma NPL comes to 3.5%.
13. The management acknowledges that the accelerated provisioning in Q3 was taken on account of the developing situation in Assam.
14. Around 80% of customers are paying on time and in full.
15. Bandhan has not made any write-offs in Q3.
16. The management states that new account acquisition has come back to pre-covid levels and the existing customer base has also increased its wallet share.
17. The management states that in response to the situation in Assam, Bandhan's first reaction is to step back, connect with the customers, go slow on disbursement, improve the connect quotient with the customer. Around 95% of the proforma NPL of 7% is in EEB.
18. The management states that the reason it has seen a high pickup in SA in Q3 was due to the higher term deposit rate provided by Bandhan.
19. Around 67-68% of accounts are less than Rs 1 Lac. With the average being at Rs 60,000+.
20. The management clarifies that there is no automatic increase disbursement for any customer whose payment cycle has finished. It evaluates the customer's case thoroughly before deciding whether to do so or not.

21. The bank has seen 30% QoQ growth in disbursements in mortgages. The bank is also getting the credit linked subsidy from the government on the affordable housing of customers who are eligible for the CLFS. This reduces the outstanding loan amount and thus keeps AUM growth low.
22. The current share of Assam in outstanding MFI loans is 14+%.
23. The management states that the balance in MFI accounts went down in COVID-19 due to the shutdown of business activity. As the business activity of customers has come back, the balance has also risen back correspondingly. Another contributing factor to the rising balance is the continuing subsidy from social welfare schemes which are ongoing.

Analyst's View:

Bandhan Bank has aggressively grown its business over the last few years. The company had a very good quarter with good YoY growth in deposits and loans and >50% growth in PPOP. The company has taken out provisions of Rs 1000 Cr in Q3 due to the ongoing situation in Assam regarding the rumoured MFI loan waiver. This may prove to be a dampener in the company's collections in Assam which is a big market for the company with >15% of the MFI loan book. The company is seeing good traction in mortgage and commercial lending businesses and the savings deposit franchise. It remains to be seen how the Assam story plays out in the medium term and whether things will come back to normalcy as fast as reported by the management. Nonetheless, given its consistent growth momentum in recent years and its rapidly expanding customer set, Bandhan Bank remains an interesting company to keep track of the microfinance and small finance banking industry in India.

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